

## CHAPTER 29. WAYS FOR ENHANCEMENT OF EXPORT ACTIVITIES<sup>1</sup>

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### **Abstract:**

*During the last decade of the twentieth century Serbian economy has been facing numerous problems, which have only become worse after the global financial crisis. The future status and the possibilities for recovery, among other things, will largely depend on the development of foreign trade exchange and the increase in export. There is no doubt that Serbia has great opportunities and potential to increase the export, but situation nowadays does not allow us to be optimistic concerning serious growth in the long-term perspective. The main prerequisites for making positive changes in the restructuring of the Serbian economy are creating favourable business environment, potentials for attracting foreign direct investment, and production increase. Also, in order to achieve these objectives, it is necessary to create an active and well-conceived policy of promoting exports, based on the use of appropriate measures and tools to support the export activities.*

**Key words:** export, export promotion policy, international trade, Serbia

### **INTRODUCTION**

At the present time due to the deepening of globalization and internationalization processes in the world economy, the role of international trade and especially exports is more significant. Export, especially for small or relatively small countries, that are more dependent on the qualitative and intensive cooperation with foreign countries, may become one of the key factors for stimulation of economic development. Furthermore, thanks to the export activities of domestic companies,

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entrepreneurs are not limited to the domestic market but also have access to other countries, which can significantly enhance their international competitiveness.

Each country within its economic policies should implement the appropriate policies to support exports. Well-conceived pro-export policy with an active support for export promotion may be the most effective instrument to combat the crisis and also support the creation of conditions for accelerated economic growth. Support and promotion of export stimulates job creation, not only for direct exporters, but also in a wide network of domestic subcontractors. As a result, there is significant job growth, increased household income and the inheritance of increasing demand and consumption. All of the mentioned have positive impact on macroeconomic stability and growth rate of GDP. In addition, the increase in exports positively affects the development of balance of payments and external economic balance.

During the implementation of export promotion policy, certain tools and instruments for financing may be used. Basically, the state directly promotes exports through credit instruments, government guarantees and export subsidies. Financial instruments allow manufacturers to improve competitiveness in international markets and also to reduce costs and risks associated with doing business abroad.

Indirect instruments for export promotion are based on providing various advisory and information services. Very often used instrument that can be defined as a technical assistance allows local entrepreneurs to obtain information and data on foreign legislative regulations, technical standards and norms, which greatly simplifies the possibility of a successful business in foreign markets. In addition to providing technical assistance and professional translations, it also helps in building a sales network, as well as the opening of commercial and industrial centres abroad. Among other things, it provides the consulting specialists to discuss technical issues. Providing information and advisory services to exporters are primarily implemented through the development of various marketing analyses, finding business partners, supporting the creation of export-oriented companies and enterprises, investment advisory services, counselling for finding the right distribution channels, advising on international fairs and exhibitions. The mentioned services are provided mainly by specialized government agencies, and private companies that receive support from the state. Information may be provided by domestic but also foreign institutions. Regarding the institutional framework, competences of the "domestic" economy usually belong to the appropriate ministries (Ministry of Economy, Ministry of Industry, Ministry of Trade, etc.) and various export promotion agencies, chambers of commerce, private and independent export consultants or other advisory organizations. In a foreign country the information may be obtained from consular services section of the department of foreign affairs and trade and from mixed chambers of commerce.

## SERBIAN EXPORT POLICY INSTITUTIONAL FRAMEWORK

Serbian export in the last decade was a consequence of inadequate structure of the economy. Low number of strong and export-oriented companies, export based mainly on resources and extensive and arbitrary public support were the main characteristics of Serbian export in the last period. Without any intention to analyse crucial reasons for the poor export performances, the main purpose of the following part of the chapter was to explain current institutional framework for the export activities of our companies, main institutions and the Strategies adopted in order to help enhance export activities.

### Institutions

*SIEPA- Serbia Investment and Export Promotion Agency* is established by the decision of the Government of the Republic of Serbia. It provides two types of services:

- support to export oriented companies
- support to investors interested in investing on Serbian market

These types of agencies exist in all Western Balkan countries. Their presence is generally shown as useful. However, the range of their activities may vary depending on other institution operating in the field of export promotion. In Serbia, SIEPA does not operate with large assets. In 2010 and 2011 private companies subsidies were about 800ths EUR and 1,5mln EUR respectively<sup>4</sup>. Therefore, its activities are mainly oriented to administrative support and strengthening presence of our companies abroad. The most important support programs are:

- Competitiveness support and Serbian economy internationalization program
- USAID support for agriculture
- European Agency for Reconstruction support for SMEs
- National Agency for Regional Development support to SMEs

*Agency for export financing and insurance.* Government of the Republic of Serbia recognized the need for additional export support through special body whose main role is to be the link between domestic and foreign markets. The idea was to provide insurance by enabling financial security for the settled contracts. As a model, the Government used similar bodies that already exist in developed markets: Hermes A.G. in Germany, NEXI in Japan, EXIM bank in USA etc. From July 2005, the Agency for export financing and insurance insured the export value of around 1,6bln EUR. Export loans amounted to 460mln EUR. In the credit portfolio, processing and food industry are dominant, while metal industry dominates in the insurance portfolio.

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<sup>4</sup> [www.siepa.gov.rs](http://www.siepa.gov.rs), SIEPA informer

Geographically, more than 50% of export related to the agency support programs are from the EU countries<sup>5</sup>. That reflects Serbian export structure, but also represents a signal that the Agency did not recognize potentials from other significant markets. Other problems are dominantly the repercussion of lack of financial capacity. Supported agreements are short term oriented and there are few guarantees issued. As one of the imperatives for the future period we suggest support for the products with higher added value concerning our resource based export.

### Strategies

*Export enhancement strategy (2008-2011).* Having in mind relatively modest export levels and worryingly high external trade deficit in the period 2001-2007, Serbian Government adopted Export enhancement strategy for the period 2008-2011. The Strategy creators recognized urgent need for export strengthening since Serbian economy is naturally destined to be export oriented. By all theoretical knowledge, small countries cannot achieve economy of scale due to a small market. Also, if a country is not rich in natural resources, modern production processes necessarily require large technology and materials import. As a consequence, huge trade deficits have been created representing a warning for macroeconomic stability if significant export increase is not achieved. Basic goals proclaimed by the Strategy are as follows:

- Average annual export increase amounting to 25%.
- Export structure improvement toward higher export of products with higher value added. Share of capital and consumer goods in 2007 was about 43.2%. The idea was to increase share of these goods in total export to 65% for the three years period.
- Better geographical diversification by penetrating into new markets.
- Increase the number of large exporters from 66 to more than 120<sup>6</sup>.

Strategy implementation respects the following principles:

- Strong cooperation between Government and private sector
- Formulation of export support system that will follow the dynamics of WTO and EU accession
- Increase of small and medium enterprises capacity
- Adoption of incentives system for export oriented foreign direct investments

It is rather obvious, without considering the world financial crisis effects that Strategy creators could not perceive, that projections including export rise up to 25%

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<sup>5</sup> Ilić, A., Export credit agencies as a part of export system support, Serbian economic Forum, 2008.

<sup>6</sup> Exporters whose annual export value is more than 10mln EUR

annually are too optimistic. Export is not under the direct Government control and is affected by numerous factors such as world demand, inflow of foreign direct investments that are export oriented, economic subject decisions etc. Also, inherited economy structure devastated in the period of 1990s was in such a dramatically bad situation that only enormous inflow of export oriented foreign direct investment may significantly improve the country's export level and structure. Despite the fact that privatization process was in the last phase and Greenfield foreign direct investments attraction very low, as a precondition for achieving targeted goals economic policy creators set annual foreign direct investments level of 3bln EUR, GDP annual average growth rate of 6.3% GDP and increase of investments in fixed assets from 21.6% up to 25% of GDP in 2011.

Finally, the application of specific measures defined in the Strategy and control of its implementation are not provided. Relevant Ministries that should be under the control of National Competitiveness Council are in charge of the application of measures defined in the Strategy. Unfortunately, National Competitiveness Council is not a body with the power to punish if the proclaimed objectives not fulfilled. That is another reason that the Strategy did not reach its expected goals.

*Competitiveness support and Serbian economy internationalization program* is adopted in 2012 according to the Budget law for 2012 and SIEPA annual working and financial plan. It is defined as an instrument of export support for both individual economic subjects and business communities. The program includes a number of existing and new measures created in order to increase the capacities of Serbian economic subjects to be present in foreign markets. Total program budget is around 1,5mln EUR intended to cover:

- Costs of presenting companies on foreign exhibits
- Costs of establishing affiliates in foreign markets
- Costs of company presentation in organized economic visits
- Costs of product internationalization through strengthening of competitiveness
- Costs of strengthening capacities

Program results are going to be visible in the following years. It is our opinion that the idea of supporting Serbian companies to be more present in international markets is very good. The critical point of program success will be the choice of companies fulfilling the criteria for the program. Despite strong eligibility conditions it is necessary to perform program evaluation and create mechanisms that would analyse the effects of the given support on exporters.

*Post crisis Serbian economic growth and development model (2011-2020)*. Crucial motive of the model represents the idea that in order to achieve higher GDP growth rates Serbia needs to reformulate its development model. Export rise provided in

the last decade has to be more oriented on goods, especially interchangeable goods with higher added value. In general, comparing to similar countries, new EU members, Serbia will have to increase its trade activity. In the following years, strong growth will require technological equipment from abroad. According to the Strategy, if some kind of trade balance is to be achieved<sup>7</sup>, export level should be about 65% of GDP until 2020 (about 34mln EUR). The authors admit that export level, especially at the sector level, is not directly dependent on the Government decisions solely, but on a large number of factors. That is the reason why the presented Strategy is more a guidance for preferable changes rather than a plan with specific tasks and responsibilities.

The main activities that should enhance Serbian export proposed by the Strategy are:

- Process of EU integration that increases the possibilities for export increase
- Better usage of potentials in export to Russian Federation and former Yugoslav countries
- Using traditional relations for increasing export levels in North Africa and Middle East. These markets are not severely influenced by the economic crisis and not so distant in the sense of transport costs barriers.
- Increasing of export oriented FDI<sup>8</sup>. That will be possible only if the large economic systems (multinational companies such as FIAT) invest /move their production in Serbia.
- Improving business environment through removing of administrative barriers.

Obviously, it is hard to say that there were no Government attempts for encouraging the export activities. The export data breakdown in the following part of the chapter will show modestly rising export trends, even after reasonable decline in the period of financial crisis. *Agency for export financing and insurance* had remarkable results in the last five years, which proves that export insurance should be the essential part of Government export support policy. However, it is evident that there is no consistency in the adopted Strategies. Namely, all programs lack the priorities in the sense of sectors and potential markets. Also, we can notice that program supports are mainly short term oriented mainly due to the lack of financial resources.

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<sup>7</sup> about 12% of GDP

<sup>8</sup> It is rather indicative that only one small part of the Serbian economy has good export results, mainly privatized companies and a few Greenfield investments. Almost half of Serbian export consists of 40 companies and about 20 groups of products account for about 40% of the total export.

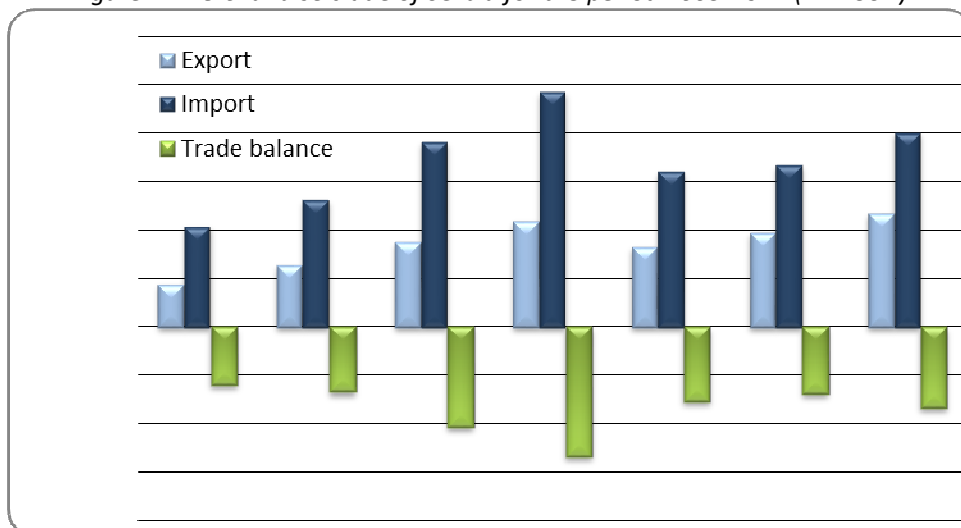
## EXPORT ACTIVITIES OF SERBIA

Serbia is a small country with limited raw material base and low population number. Therefore, its involvement in international trade is necessary. Taking into account all benefits, which provides active cooperation with foreign countries and especially export growth, Serbia should reconsider its export promotion policy and creation of appropriate instrument structures necessary for its implementation.

At the beginning it is logical to ask the question - what is the situation in the foreign trade of Serbia, and how does the export activities were developing in the last period. Also, it is important to consider the production structure of exports, export markets and to analyse the problems and weaknesses in this field.

According to data from the statistical office, Serbia in the period 2005 - 2011, observed in current USD, has recorded relatively high average growth rate of exports (19.8%) and imports 14.8%. The growth of exports and imports would be even higher, but in 2009, due to the global economic crisis, there was a significant decline in foreign trade exchange (export value compared to 2008 decreased by 24%, while imports fell even stronger by substantially 34%). The positive trend continued in 2011, when exports and imports grew by 20% compared to the 2010 (see the chart below). However, despite the relatively high rate of growth of foreign trade exchange in the period 2005-2011, Serbia faces the problems of rising current account deficit.

Figure 1: Merchandise trade of Serbia for the period 2005-2011 (mil. USD)



Source: Statistical Office of the Republic of Serbia

In the period January-May 2012, the value of exports amounted to USD 4377.8 million, which was the decrease of 6.6%, compared to the same period last year. Also, there was a rise in the foreign trade deficit, which in the same period last year increased by 3.8% and amounted to 3468.1 million USD.

By analysing the structure of foreign trade by products, according to sections of the Standard International Trade Classification (SITC), it can be concluded that the dominant position in the structure of exports during the first decade of the XXI century has been given to reprocessed and agricultural products, iron and steel, nonferrous metals, clothing, metal products, various finished products, rubber products, fruits and vegetables and cereal products.

*Table 1: The structure of the product by sections of SITC (mil. USD)*

	2005	2006	2007	2008	2009	2010	2011
Total export	4482	6428	8825	10974	8344	9795	11777
0 Food and live animals	776	1065	1355	1484	1510	1768	2091
1 Beverages and tobacco	55	114	176	250	248	232	274
2 Raw materials, except fuels	198	278	409	457	291	465	656
3 Mineral fuels and lubricants	164	225	231	373	390	500	496
4 Animal and vegetable oils and fats	43	31	98	149	124	144	201
5 Chemicals	494	650	915	1111	661	878	1001
6 Manufactured goods classified by materials	1595	2418	3085	3607	2182	2841	3481
7 Machinery and transport equipment	443	711	1264	1902	1488	1590	1959
8 Miscellaneous manufactured articles	703	897	1248	1541	1326	1234	1511
9 Commodities and transactions, n.e.s	12	39	44	99	127	143	106

*Source: Statistical Office of the Republic of Serbia*

In addition, the structure of exported products in this period was not significantly changed, except for the 0-sector, Food and live animals. Within this sector,



departments of vegetables and fruits and grains and products made from them have been replaced. These changes result from surpluses of certain products, as well as the situation in the world market. Agricultural products have a significant long-term share in Serbian exports. Raspberries, plums, cherries and blackberries are the most exported fruits, while wheat and yellow corn have the leading role in case of cereals.

In the period January-May 2012, according to the divisions of the Standard International Trade Classification (SITC) the following goods had the greatest export share: cereals and cereal-based products (384.3 million), electrical machinery, apparatus and appliances (317.3 million USD), non-ferrous metals (USD 275.8 million), iron and steel (USD 206.7 million) and metal products (201, 9 million).

Regarding the main export destinations, the most important foreign trade and export partners in the period 2005–2011 were: Bosnia and Herzegovina, Montenegro, Italy, Germany and Russia. The table below gives a detailed overview of the export activities with major trading partners.

From the regional point of view, EU member states share is more than half of total foreign trade, while CEFTA countries are the second most important partner. In addition, Serbia established a long-term surplus in trade only with the countries of CEFTA.

In other words, Serbia is oriented so that the largest share of exports is sold to neighbouring countries. Trade with countries that are geographically close has shown positive trend since 2006 (except 2009), which is likely to continue in the first half of the second decade of the 21st century, but the opposite holds for distant countries.

*Table 2: Major export partners (mil. USD)*

	2005	2006	2007	2008	2009	2010	2011
EU25	2411	3361.1	-	-	-	-	-
Italy	652.4	932.5	1094.2	1128.5	820.9	1118.5	1307.5
Germany	435.1	660.0	937.5	1142.0	871.6	1008.2	1329.7
Slovenia	188.8	253.4	409.0	502.0	343.8	425.9	526.1
Austria	118.5	191.9	301.4	458.1	290.8	338.4	371.3
EU27	-	-	4935	5953.5	4478.2	5614.8	6789.7
Bulgaria	93.0	154.2	218.1	251.3	198.7	241.1	324.6
Romania	130.1	176.7	265.2	397.8	482.3	650.7	812.5
Western Balkans (CEFTA 2006)	1447.7	2287.7	2845.7	3636.7	2634.0		

	2005	2006	2007	2008	2009	2010	2011
Albania	21.3	33.3	80.1	76.6	69.8		
Bosnia and Herzegovina	744.0	749.0	1042.1	1338.7	1015.6	1089.0	1191.2
Croatia	195.9	251.0	330.8	434.5	278.8	307.1	468.0
Moldova	2.8	3.9	4.6	6.6	4.4		
Macedonia	260.6	300.3	437.1	493.0	429.1	476.8	524.6
Montenegro	-	619.4	950.9	1287.3	836.2	803.8	890.7
Russian Federation	225.3	311.1	450.6	551.0	349.4	534.7	792.2
China	2.3	6.3	5.6	5.8	8.9	7.3	15.3
Other countries	395.9	461.7	587.8	825.8	874.5		

Source: Statistical Office of the Republic of Serbia

In the period January - May 2012, five major foreign trade partners in exports were Germany (529.6 million), Bosnia and Herzegovina (USD 429.4 million), Italy (USD 425.9 million), Romania (404.3 million USD) and the Russian Federation (302.6 million USD).

## PROBLEMS AND LIMITATIONS OF SERBIAN EXPORTS

There are several key issues that are relevant when considering Serbian exports. One of the most important issues is export structure which is characterized by a high share of products with low added value, namely the primary sector products and basic metal products. Furthermore, problems in exports are associated with low levels of competitiveness of Serbian economy and products. "The inferior quality of products, lack of certified goods, small number of products adjusted to the new international standards, small-lot series, loss of the former distribution network, impossibility of sales crediting and the like do not allow the greatest part of the economy, especially industry, to increase its exports within a short period, regardless of the exchange rate"<sup>9</sup>.

The next very serious imperfection is unfavourable business environment. Unstable conditions, huge taxes and fees, legal gaps, bureaucracy and inefficient administration and corruption negatively affect the economy, as well as the possibility of building a suitable environment for increasing exports.

<sup>9</sup> Competitiveness of the Serbian economy – challenges and opportunities, Advancement of the business environment for private sector development in Serbia, Roundtables, CIPE, 2009, str.5, available at [www.sam.org.rs/download/files/cms/attach?id=142](http://www.sam.org.rs/download/files/cms/attach?id=142)

The situation is not encouraging even when it comes to the foreign direct investment, on which depend the possibilities of domestic production restructuring and level of competitiveness. Due to relatively low levels of FDI, as well as the lack of innovative activities in enterprises, the technological level of Serbian exports is significantly lagging behind in an increasingly competitive global marketplace.

One of the branches of economy in which Serbia clearly has a comparative advantage is agriculture. However, taking into account the fact that state has been under-investing in agricultural infrastructure in recent years, as well as restoration of the land, it will face many problems in this area. Among other things, Serbian exports in the long run, cannot rely solely on agriculture, which in fact cannot be the basis for export growth and economic development.

The long-term problem was also the overestimated dinar exchange rate (the policy stability of the Serbian dinar was in force from 2000 to 2008, when the global economic crisis has been a weakening of the dinar exchange rate), which influenced prices of imported goods expressed in local currency were very affordable, which again led to import growth. Excessive import negatively affected the domestic production, but also led to a situation where Serbian companies were no longer profitable to export their products.

#### **POLICY RECOMMENDATIONS FOR ENHANCING EXPORT ACTIVITIES**

Existing literature that covers the field of trade and export policies does not have common attitude on effectiveness of certain policies. Debate mainly ends up leaving the traditional conflict between neoliberal and welfare state policy supporters on the pitch. For example, (Rodrik, 1995) argues that, contrary to the conventional wisdom on the superiority of rule-based trade policy regimes, some of the most successful export-oriented trade policies are in those countries that have used highly discretionary export subsidies<sup>10</sup>. On the other hand, when explaining East Asian economy success, (Rajapatirana, 1993) explains: "We have to note the crucial link between the overall policy environment and the success of the neutrality-creating export promotion"<sup>11</sup>.

However, there are several conclusions proclaimed in the literature that economic policy decision makers should have in mind when deciding on measures to adopt in

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<sup>10</sup> Rodrik, D., 1995c. Taking trade policy seriously: export subsidization as a case study in policy effectiveness, In: Levinshon, J., Deardorff, A., Stern, R. Eds., *New Directions in Trade Theory* University of Michigan Press, Ann Arbor.

<sup>11</sup> Rajapatirana, S., Policy recommendations for export success, *Estudios de Economia*, 1993, vol. 20, issue 1 Year 1993, pages 1-25

order to improve export. By examining relevant literature and putting the facts in the Serbian economy context, we have drawn several conclusions about possibilities for improvement Serbian export policy. Our aim was to suggest specific policy recommendations that can improve the fields important for export rise such as regulative environment, development of clusters, subsidizing policy, R&D investments etc.

1. *Regulative improvement.* External trade financing instruments mainly depend on the Law on Foreign Exchange Activities. Our legislation concerning this field is still rigid reflecting the fear of liberalizing foreign exchange activities. Gradually liberalizing these activities would relieve private sector limitations for buying foreign currency (Kozomara, 2010). It is necessary to mention the threats concerning this issue related to financial stability and Dinar stability may be jeopardized. Therefore, gradual approach is very important. Also, an interesting measure can be credit terms extension up to 270 or even 360 days with the support of government credit agencies that would enable our companies more space for deal construction.

Labour market legislation is rigid and should be liberalized in order to make it easier for employers to sack their employees. Slovakian example concerning labour laws has shown very strong impact of these measures on awakening labour market and unemployment decrease. Also, it would be very important to perform competition protection analysis in all sectors as a measure that would bring more welfare for the consumers. These two measures should influence inward FDI, that is of the crucial importance for the export enhancement, but it is necessary to mention, necessary but not sufficient for export enhancement. FDI that should be attracted are those in export oriented sector.

2. *Clusterization.* In the field of clusterization Serbia has made probably the most significant improvement in the last years. Currently, 27 clusters operate in Serbia and it is expected that their number would continuously increase in the following years<sup>12</sup>. Clusters are a dramatically important factor for competitiveness support. Industrial clusters enhance international competitiveness through three channels<sup>13</sup>:
  - Productivity increase
  - Innovation enhancement
  - Establishing new companies

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<sup>12</sup> [www.merr.gov.rs](http://www.merr.gov.rs)

<sup>13</sup> Porter, M., E., O konkurenciji, 2008, FEFA, Beograd

For Serbia, due to the market size, industrial production export enhancement is almost impossible without creating large association of companies. Moreover, in the EU, 40% of all employees are employed in companies that are cluster association members<sup>14</sup>. Initiative for the establishing and developing clusters depends on the State activities in the field of regional policy, industrial policy and FDI attraction<sup>15</sup>.

3. *Macroeconomic stability and clear Export Strategies.* These factors probably made a difference when comparing East Asian success and Latin American export promotion failures. Stable and predictive macroeconomic environments have always been observed as corner stone of attracting FDI and providing high export. In Serbia specifically, exchange rate issues are under special observations. Moreover, by (Uvalic, 2011) Serbian economists are divided regarding the principal causes of Serbia's unsatisfactory foreign trade performance. One group primarily blames monetary and exchange rate policy, while the other group considers the main problem to be in the real sector, namely supply-side factors and the inadequate structure of Serbian exports<sup>16</sup>. Serbian dinar was significantly overvalued in the last decade, but relevant investigations prove that price competitiveness did not dominantly affected Serbian export performances<sup>17</sup>. Without serious restructuring even stronger depreciation will not result with higher export. Contrary, stronger depreciation than it was in 2011 and 2012 would probably result in jeopardizing macroeconomic stability and higher inflation. (Tasic and Zdravkovic, 2011) have shown that estimated elasticity of exports with respect to real exchange rate is about 0.5, suggesting that the potential changes in the exchange rate policy would yield relatively small benefits for exporters<sup>18</sup>.
4. *Clear exit rules for the export promotion.* In the history of export promotion there is potential threat that Government subsidies result in transfer benefits to foreign importers. So-called infant industries may receive support and later lower the prices in order to become more competitive. Therefore it is important to have clear timetable when supporting particular companies. It is typical for the Government in countries that failed to ensure export success, they

<sup>14</sup> Commission of the European Communities - CEC, "The concept of clusters and clusters policies and their role for competitiveness and innovation – Main statistical results and lessons learned", Commission Staff Working Document, Brussels, s. 14-20.

<sup>15</sup> Mičić, V., *Ekonomski Horizonti*, 2010, 12, (2) str. 57-74

<sup>16</sup> Uvalić, M., *Serbia's Transition Flaws: Why has export-led growth not been achieved*, Export led growth, Friedrich Ebert Foundation, Office in Belgrade, 2011

<sup>17</sup> Uvalić, M., (2011), "Problemi dosadašnjeg modela razvoja Srbije", paper presented at the Scientific Society of Economists of Serbia conference

<sup>18</sup> Tasić, N., Zdravković M., *Long-run Exchange Rate Sensitivity of Serbian Exports and Imports*, NBS working paper, 2008

committed mistake and were not able to withdraw their support to certain exporters<sup>19</sup>. In Serbia, as a country perceived as highly corruptive by all international methodologies, this may be dramatic issue.

5. *Investments in R&D activities.* Human capital is an important determinant of the national company performances and competitiveness. It should be emphasized that, by all known human capital indicators, Serbia takes very disappointing positions including high level of brain outflow, high salary to productivity ratio, unfavourable education system and low usage of talents. Moreover, investments in R&D activities are among lowest in Europe<sup>20</sup>. (Czarnitzki and Wastyn, 2010) studied the relationship between R&D activity and the export of firms using data from Belgium, country that can be seen as a representative for a case study of a small, open European economy. The obtained results seem very symptomatic when considering Serbian export experience. R&D investments are doubtlessly related to the export rise. The effect of R&D investments rise is stronger for domestic comparing to multinational companies. This should be very reasonable export promotion instrument when considering structure of the Serbian economy and low level of attracted FDI. Economic policy creators should seriously consider preparing Strategy for R&D subsidies. Also, it would be interesting to perform analysis if these subsidies may have stronger and even more sustainable effects comparing to export subsidies.

## CONCLUDING REMARKS

In order to achieve the recovery of exports and improvement of the situation in the foreign trade exchange, it is necessary to make a continuous effort and to take multiple measures. The most important step is to increase the competitiveness of Serbian economy through general restructuring based on foreign investment, which would be primarily focused on manufacturing, new technologies, and retraining the workforce. Increasing competitiveness is not possible without creating conditions for improving the investment climate and the formation of a more favourable business environment by improving the efficiency of state administration and the elimination of restrictions on the development of entrepreneurship.

Regarding the structure of exports, it is necessary to focus on development of activities that create products with higher added value. Also, taking into account the importance of agricultural products for export of Serbia, it is required to strengthen

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<sup>19</sup> Rajapatirana, S., Policy recommendations for export success, Estudios de Economia, 1993, vol. 20, issue 1 Year 1993, pages 1-25

<sup>20</sup> Grečić, V., Ljudski kapital kao faktor unapređenja konkurentnosti privrede Srbije, Kako povećati izvoz i konkurentnost privrede i izvoza Srbije, Naučno Društvo Ekonomista Srbije, 2010.

the development of the agricultural sector through active government policy and to continue subsidizing farmers, as well as to invest in irrigation systems. All that could significantly contribute to a better yield and quality of agricultural products. In the next four years over five billion euro will be invested in irrigation system. Thus, production could be increased twice per hectare and sugar beet by one third.

It is necessary to attract foreign companies like Fiat, Gorenje and others, preferably huge multinational companies. However, stimulation of export-oriented domestic companies, especially small and medium enterprises should not be left out. Domestic companies should assess their potential and make an effort in developing their own strategies to increase competitiveness at the regional and global levels, as well as in improving export marketing. The key to future development lies in the "application of knowledge and innovation in product development, application design, investment in new technologies and distribution channels"<sup>21</sup>. As part of increasing its own competitiveness and hereditary influence on the increase in exports, the possibility of forming clusters should come into account, especially for large markets that have a need for greater quantities of certain products. Thus, companies may find it easier to survive and to cope with competition in foreign markets. In that way, the formation of clusters may positively affect the possibility of improving product quality, and the creation of new production brands.

A possible solution to increase the export is expansion of export markets. The countries of Asia, Africa and America have high export potential. Also, it exist realistic chances for the development of economic cooperation with Russian Federation, Poland and Romania. China market is not sufficiently exploited for export. However, in order to create positive change in the foreign trade exchange with that country, it is necessary to achieve the appropriate level of production so they can meet the needs for such a huge market.

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